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August 31, 2020

Dr. Mark Calabria
Director
Federal Housing Finance Agency
400 Seventh Street SW
Washington, DC 20219

RE: Enterprise Regulatory Capital Framework; RIN 2590-AA95

Dear Director Calabria:

Axonic recommends caution in the adoption and implementation of the proposed regulatory capital rules regarding Freddie Mac's multifamily mortgage origination platform. Please allow us the opportunity to detail our firm, transactions with Freddie Mac and focused comments herein.

Axonic Capital LLC

Axonic Capital LLC ("Axonic") is an independent financial services firm headquartered in New York City that offers asset management services across structured credit and the commercial real estate ("CRE") markets. Our business practice provides opportunistic structured credit investment solutions from an experienced team with expertise in creating unique advantages through partnerships, sourcing and structuring, and asset allocation. Founded in 2010, Axonic manages in excess of $4.0 billion of total assets and committed capital as of June 30, 2020 on a global basis.

While Axonic has built a broad asset management platform within structured credit, the majority of its managed investments are CRE-related. Axonic's CRE strategy includes first mortgage and mezzanine debt funding, Commercial Mortgage Backed Securities ("CMBS") purchasing, a direct CRE equity investment business that has invested in approximately 8.5 million square feet of CRE and over 4,800 residential units and, most notably, a long-standing commitment to Freddie Mac related to CRE workforce housing (apartment/multifamily).

Axonic has extensive experience in the Agency multifamily finance market, having purchased over 130 different non-guaranteed debt instruments secured by Freddie Mac and Fannie Mae collateral totaling over $3.2 billion of market value across the K, SB, whole loan programs, and MCAS transactions. Axonic currently manages investments collateralized by over $52 billion of unpaid principal balance and over 6,400 individual loans in these programs. Beginning in 2014, Axonic was chosen by Freddie Mac to be the initial purchaser of the first-loss risk pieces ("B Piece") in their Small Balance loan securitization program ("SB"). Since then, Axonic continues to be the largest buyer of B Pieces issued by Freddie Mac's SB program.

Since beginning to work with Freddie Mac on the SB program, Axonic has established robust and thorough protocols related to the evaluation and surveillance of each pool of loans. Using these protocols, Axonic has evaluated thousands of loans and has been consistently impressed by Freddie Mac's high standard of care. This standard includes Freddie Mac's underwriting, servicing and surveillance standards and deep borrower and originator relationships. All aspects, however, are centered around Freddie Mac's core mission – housing affordability.

Agency Mission

SB loans were historically provided by regional banks and small lenders nationwide. The landscape was more fragmented and lacked the predictability needed to maintain stable affordable housing during both good and challenging times. Freddie Mac's stated mission is "to provide liquidity, stability, and affordability to the US housing markets in all economic conditions…coast to coast."[1] Freddie's SB program does just that, providing stability to an underserved part of the capital markets landscape. Without Freddie Mac's market participation in the SB sector during periods of increased uncertainty/volatility (COVID, for example), asset prices, financing levels and tenant rental rates could fluctuate wildly.

FHFA Proposal

The FHFA has proposed capital rules seemingly aimed at providing balance sheet safety and stability for the GSEs. Whether subject to, or released from conservatorship, ensuring business viability for the GSEs is vital to housing stability and affordability. Were these organizations to begin taking unreasonable risks in the form of either structure (securitization) or collateral, Axonic believes there could be negative market effects. These risks would have material impacts on apartment rental rates and adverse effects to general housing affordability.

Axonic supports the FHFA's goal of establishing sound capital controls to protect Freddie Mac and the GSEs from unexpected market dislocation and imprudent risk taking as this will naturally benefit the long-term stability of affordable housing. It is Axonic's

[1] Freddie-Mac, (August 31, 2020), About Us. Retrieved from http://www.freddiemac.com/about/

opinion that the proposed capital charges are far too punitive for a GSE given existing public-private partnerships or for a private, post-conservatorship entity.

Credit Risk Transfer

Freddie Mac has created securitization structures where highly sophisticated investors purchase significant, first-loss principal risk. In these cases, the proposed rule's prohibitively high leverage constraint is unnecessary.

When it began the K-series and SB programs following the Great Financial Crisis, Freddie Mac created embedded structural capital controls to reduce the company's exposure to collateral deterioration. These Credit Risk Transfers ("CRT") represented a public-private risk sharing whereby Freddie Mac could accomplish its aforementioned mission while also de-risking its balance sheet with the assistance of private enterprise. By selling significant risk to third-party investors, Freddie Mac was able to effectively eliminate its exposure to realistic default and loss scenarios. External "risk reduction" capital ensures balance sheet protection and program success.

Post-Conservatorship

In discussing the proposed rule as it relates to post-conservatorship, Axonic feels compelled to first ask the question – will these organizations still retain a mandate from Congress to promote affordable housing? If this is the case, the proposed rule changes would place similar capital controls on the GSEs that exist for large, bulge-bracket banks. This dynamic is incongruous to a mission-driven mandate. There would simply be no way to maintain the mandated mission of low-cost financing with such onerous capital charges in a competitive market.

Alternatively, should the GSEs exit conservatorship stripped of their government mandate, Axonic believes the proposed capital treatment would make it difficult to attract outside investment and ultimately impede the goal of exiting conservatorship. Axonic further believes the resulting capital market disruption would be significant and the ensuing instability of affordable housing could have long-lasting negative effects.

Conclusion

Axonic believes sensible balance sheet controls created and enacted to protect the GSEs from excessive risk taking is in the best interest of the US housing market, but such controls must balance the primary goals of the GSEs. This will allow the GSEs to operate comfortably in even the most uncertain times. One must not look further than March

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2020 to see the vital role Freddie and the GSEs play – during one of the most unique economic situations of the last 100 years, the GSEs' stability was a bedrock in the United States' COVID recovery. With that in mind, Axonic urges the FHFA to reconsider its current proposal both from a conservatorship and post-conservatorship perspective.

Axonic humbly provides its comments on the current FHFA proposal. We appreciate the opportunity to communicate this directly and we look forward to ongoing dialogue on the subject.

Sincerely Yours,

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Clayton DeGiacinto
Chief Investment Officer